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BANKS: Ancient & Modern

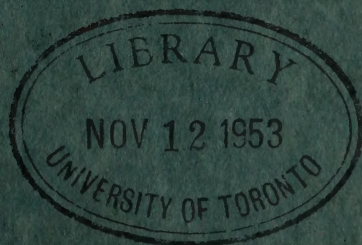
A LECTURE

delivered before the Grand Trunk Railway
Literary and Scientific Institute

by

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FEBRUARY 25th, 1915

Room 307

BANKS: ANCIENT *and* MODERN

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*delivered before the Grand Trunk
Railway Literary and Scientific
Institute at Point St. Charles, on
February 25th, 1915*

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MR. CHAIRMAN, LADIES AND GENTLEMEN:



WHEN I was asked to address the members of the Grand Trunk Railway Literary and Scientific Institute on the subject of Banking, I was confronted with the usual dilemma of people who discuss things in public—I mean as to the manner of approaching my subject. Should it be in the solemn way in which such a grave and weighty matter might expect to be approached; but then I was warned that you did not want a sermon, or was the method to be that of the late Artemus Ward, who lectured many years ago in London on Africa. He had a map of Africa hung up behind him and he began by saying that Africa was a large subject, and he pointed to the map in confirmation of this assertion; it was famous for its roses, it grew the red rose, the white rose, and the negroes, and that was the last you heard of Africa

during the evening. I feel that Banking is commercially and socially as large a subject as Africa geographically and that if I confined my observations only to the banks in Canada I could fill you with information, though you might feel inclined to drag me to the bank of the canal in sheer weariness of spirit and exasperation at the interminable nature of my remarks. I will try and steer a middle course, and avoid the Scylla of sermonizing and the Charybdis of a too humourous treatment of my subject, for there is something fatal about humour, like turpinité. Man's laughter and manslaughter are both spelt the same way, and the one would seem to lead naturally to the other; for instance, when Queen Elizabeth perpetrated the remark "Ye be burly, my Lord of Burleigh, but ye make less stir in my realm than my Lord of Leicester," the Puritan revolt against the monarchy was felt to be inevitable. Early in my banking career I was told never to put a joke in a business letter. I was too frightened to ask why at the time, but on reflection I concluded it might burst the envelope, and speaking of fright recalls to mind the story of Professor Leacock, our Canadian Mark Twain, and his attempt to deposit his hard earned savings. He recounts the incident thus:

When I go into a bank I get rattled. The clerks rattle me; the wickets rattle me; the sight of the money rattles me; everything rattles me. The moment I cross the threshold of a bank and attempt to transact business there, I become an irresponsible idiot. I knew this beforehand, but

my salary had been raised to fifty dollars a month, and I felt that the bank was the only place for it. So I shambled in and looked timidly round at the clerks. I had an idea that a person about to open an account must needs consult the manager. I went up to a wicket marked "Accountant." The accountant was a tall, cool devil. The very sight of him rattled me. My voice was sepulchral. "Can I see the manager?" I said, and added solemnly, "alone." I don't know why I said "alone." "Certainly," said the accountant, and fetched him. The manager was a grave, calm man. I held my fifty-six dollars clutched in a crumpled ball in my pocket. "Are you the manager?" I said. God knows I didn't doubt it. "Yes," he said. "Can I see you," I asked, "alone." I didn't want to say "alone" again, but without it the thing seemed self-evident. The manager looked at me in some alarm. He felt that I had an awful secret to reveal. "Come in here," he said, and led the way to a private room. He turned the key in the lock. "We are safe from interruption here," he said; "sit down." We both sat down and looked at each other. I found no voice to speak. "You are one of the Pinkerton's men, I presume," he said. He had gathered from my mysterious manner that I was a detective. I knew what he was thinking, and it made me worse. "No, not from Pinkerton's," I said, seeming to imply that I came from a rival agency. "To tell the truth," I went on, as if I had been prompted to lie about it, "I am not a detective at all. I have come to

open an account. I intend to keep all my money in this bank." The manager looked relieved, but still serious; he concluded now that I was a son of Baron Rothschild or a young Gould. "A large account I suppose," he said. "Fairly large," I whispered. "I propose to deposit fifty-six dollars now and fifty dollars a month regularly." The manager got up and opened the door. He called to the accountant. "Mr. Montgomery," he said, unkindly loud, "this gentleman is opening an account, he will deposit fifty-six dollars. Good morning." I rose. A big iron door stood open at the side of the room. "Good morning," I said, and stepped into the safe. "Come out," said the manager, coldly, and showed me the other way. I went up to the accountant's wicket and poked the ball of money at him with a quick convulsive movement as if I were doing a conjuring trick. "Here," I said, "deposit it."

Thus it would seem that a good deal of the misunderstanding of the operations and intentions of our banking institutions is due to a lack of information which should come from the banks themselves. The general public seem to feel that there is some mystery surrounding the banking business and that banks are enchanted institutions run for the purpose of making a few big men wealthy and for the purpose of squeezing the public whenever possible. I think a good deal of this misunderstanding could be done away with if the people would get better acquainted with the bankers, come in contact with them more and find out that

they are human and have the best interests of their customers at heart.

The banks of necessity are designed to meet the requirements of the public, as otherwise there would be no call for them and they would therefore cease to exist.

It also follows that the banks, wishing to attract business, allow as much interest as can be done after providing for the cost of management, the losses that of necessity occur in loaning and a reasonable return upon the capital of their shareholders.

There is no greater truism than that money saved is money made, and while it is accumulating, the well established and well managed banks provide a safe place to keep it, in which it earns for the depositor a fair return until such time as the owner requires it for his own purposes or for a safe investment at a larger return, and I would suggest that he would often be well advised to consult his banker before investing. A man will put \$100 into a mine which pays him 20% dividends. At the end of five years the mine gives out and he loses his Capital, and if he has saved his dividends he is \$15 worse off than if he had left his money in the Bank at 3%. How many save their dividends? They usually adopt a higher scale of living, move to a more expensive neighbourhood, eat more, drink more, smoke more. The result being they have formed habits which they find a hardship to give up, even if they have the strength of mind to do so. The great majority are neither healthier, wealthier or

wiser in the end than if they had stuck to Safety First plus 3%. The point should not be lost sight of that his deposit in the bank is available immediately in the cases of urgent necessity, whereas just at the time most needed it might not be in other cases, and, therefore, under any circumstances, it is always well to keep a part of one's savings with one's bank. Banking in its present state of evolution is so complex a thing that one is apt to forget the primary object of a bank, which is a place to put money and valuables for safe-keeping so that we may leave home even for extended periods without feeling any apprehension as to the safety of our accumulated savings. In this connection I will read you an extract from the celebrated Mr. Pepys' diary, who was secretary to the navy in Charles the Second's reign, which will give you an idea of the worry and trouble even people of high position had to put up with only 250 years ago in England.

EXTRACT FROM PEPYS' DIARY (1667).

"My father and I with a dark lantern, it being now night, into the garden with my wife, and there went about our great work to dig up my gold. But Lord! what a tosse I was for some time in, that they could not justly tell where it was; that I begun heartily to sweat and be angry, that they should not agree better upon the place, and at last to fear that it was gone, but, by and by, poking with a spit, we found it, and then began with a spudd to lift up the ground. But, good God! to see how sillily they did it, not half a foot under ground, and in the sight of the world from

a hundred places, if anybody by accident were near hand, and within sight of a neighbour's window: only my father says that he saw them all gone to church before he began the work, when he laid the money. But I was out of my wits almost, and the more from that, upon my lifting up the earth with the spudd, I did discern that I had scattered the pieces of gold round about the ground among the grass and loose earth; and taking up the iron head-pieces wherein they were put, I perceived the earth was got among the gold, and wet, so that the bags were all rotten, and all the notes, that I could not tell what in the world to say to it, not knowing how to judge what was wanting, or what had been lost by Gibson in his coming down: which all put together did make me mad, and at last I was forced to take up the head-pieces, dirt and all, and as many of the scattered pieces as I could with the dirt discern by candle-light and carry them up into my brother's chamber, and there lock them up till I had eat a little supper and then, all people going to bed, W. Hower and I did, all alone, with several pails of water and besoms, at last wash the dirt off the pieces and parted the pieces and the dirt, and then began to tell them by a note which I had of the value of the whole, in my pocket; and to find that there was short above a hundred pieces, which did make me mad; and considering that the neighbour's house was so near that we could not possibly speak one to another in the garden at that place where the gold lay—especially my father being deaf—but they must

know what we had been doing, I feared that they might come in the night and gather some pieces, and prevent us the next morning; so W. Hewer and I out again about midnight, for it was now grown so late, and there by candle-light did make shift to gather forty-five pieces more. And so in, and to cleanse them; and by this time it was past two in the morning and so to bed and there lay in some disquiet all night, telling of the clock till it was daylight and thinking how painful it is sometimes to keep money as well as to get it."

You see, even as late as the latter half of the 17th Century it was the custom, as it is in India to the present day, for the people to put their money into a hole in the ground. There were others who employed a smith to make them a strong box which they kept under the head of their bed, thus assuring the probability that when a man was robbed he would have his throat cut as well, which must have conduced to a somewhat fitful repose, one would think. Then, when people became more wealthy, a strong box would not hold all their valuables, and those who could afford to, built vaults, and the millionaires built themselves what they called a Keep, with a moat 12 feet deep and outer walls, battlements, portcullises and what not, but still it was possible for thieves to break through and steal, and the necessity of trusting some one person who might hand his trust to some one else, or go hunting or fishing, or just fall asleep at the wrong moment, left the man of wealth a prey to haunting fears, for in those days it was as true as it is to-day, that it is

much easier to make money than to keep it. Perhaps, also, that is why the name Smith is so common to-day, for in the middle ages locksmiths, armourers smiths, blacksmiths, tinsmiths, goldsmiths, and the usual percentage of jaw smiths, found a ready market for their wares and multiplied exceedingly, as any City Directory will testify. In those good old days, which, if the Germans succeed, we may have a taste of again, the ancestor of some present day Smith, after partaking of his humble breakfast of grape fruit, porridge, bacon and eggs, three slices of toast and two cups of coffee, would shoulder his club, kiss his wife good-bye, pat his youngest offspring on the cheek and saunter down the lane, and the first stranger he fell in with he would fall out with if there was a chance of earning the price of his dinner by knocking him on the head. This method of earning an honest living had its disadvantages, for the Stranger might have the better of the argument and then it would be up to the Stranger to break the news to the family, which he would do by walking up to the house and asking for the widow Smith, with the accent on the widow, and banish any doubts as to his veracity by dropping the head of the family in her lap. In those far off days the poet sang that the good old way contented him—the simple plan that he should take who had the power, and he should keep who can—I think his name must have been von Schmidt. All very friendly and above board, you will say, and yet experience seemed to point to certain disadvantages. Thus the strongest in time became weak, and the most successful gentleman of

fortune gradually lost his grip, and besides he wanted to rest on his oars and enjoy the fruits of a laborious and well spent youth, very naturally, but how could he do it with a lot of young and lusty adventurers looking for openings in the joints of his armour. Now the Goldsmiths and Silversmiths in the big cities, but especially in Lombard Street, in the City of London, had exceptionally strong vaults with a large staff of trusted employees to guard them—you see they needed them in their business—and when a gentleman went on the Crusades or to the Continent on a business trip, taking his lance, sword and battle-axe in lieu of the modern letter of credit, before starting out, he would run up to London and leave his valuables with the Goldsmiths and Silversmiths Company, getting a receipt for it which he would hand over to his wife, who would place it, well, where no one but her husband had any business looking for it, and sally forth to the Spanish Main or wherever he thought he could pick up some easy money, very much after the style of the modern mining shark, only with this difference in favor of our forefathers, the latter usually risked his life to earn a living, while widows and orphans, the ignorant and unsuspecting, are the natural prey of the modern Knight of the Road. As late as 1690, only 225 years ago, men were still living who could remember when there was not a single banking house in the city of London. So late as the time of the Restoration, every trader had his own strong box in his own house, and when an acceptance was presented to him, told down the crowns and Caroluses

on his own counter. But the increase of wealth had produced its natural effect, the sub-division of labour. A class of agents arose whose office was to keep the cash of the commercial houses. This new branch of business naturally fell into the hands of the goldsmiths, who were accustomed to traffic largely in the precious metals, and who had vaults in which great masses of bullion could lie secure from fire and robbers. The new system saved both labour and money. Two clerks seated in one counting house did what, under the old system, must have been done by twenty clerks in twenty different establishments. A Goldsmith's note might be transferred ten times in a morning; and thus a hundred guineas locked in his safe close to the Exchange did what would have formerly required a thousand guineas dispersed through many tills in different parts of the city. No sooner had banking become a separate and important trade, than men began to discuss the question whether it would be expedient to erect a national bank. Two public banks had long been renowned throughout Europe, the Bank of St. George, at Genoa, and the Bank of Amsterdam. The immense wealth which was in the keeping of these establishments, the confidence which they inspired, the prosperity which they had created, their stability, tried by panics, by wars, by revolutions, and found proof against all, were favourite topics. The Bank of St. George had nearly completed its third century. It had begun to receive deposits and to make loans before Columbus had crossed the Atlantic, before Gama had turned the

Cape, when a Christian Emperor was reigning at Constantinople, when a Mahommedan Sultan was reigning at Granada, when Florence was a republic, when Holland obeyed a hereditary Prince. All these things had been changed. New continents and new oceans had been discovered. The Turk was at Constantinople; the Castilian was at Granada; Florence had its hereditary Prince; Holland was a republic; but the Bank of St. George was still receiving deposits and making loans. The Bank of Amsterdam was little more than eighty years old, but its solvency had stood severe tests. Even in the terrible crisis of 1672, when the whole Delta of the Rhine was overrun by the French Armies, when the white flags were seen from the top of the Stad-house, there was one place where, amidst the general consternation and confusion, tranquillity and security were still to be found, and that place was the Bank. The plan for a National Bank, as it finally took shape in London, was that 1,200,000 pounds (six million dollars) should be borrowed by the government on what was then considered as the moderate interest of eight per cent., and in order to induce Capitalists to advance the money promptly on terms so favourable to the public, the subscribers were to be incorporated by the name of the Governor and Company of the Bank of England. It was then (1694) at least as difficult to raise a million at eight per cent. as it would be to raise 50 millions at 4 per cent. to-day, yet so popular was the new investment that the whole sum which the Corporation was bound to lend to the State was paid into

the Exchequer before the first instalment was due, and the Bank of England opened its doors for business. Since that day the functions of a Bank have grown more and more complex, and it has become a separate profession, which requires a great many years study if a man would master all its details, but at the same time it is a place where the basic virtues upon which civilization rests are held in high repute. That is Honesty, Industry, Temperance, Punctuality, and last and rarest of all the virtues, Tact. I don't say that the modern banker is a shining example of all these traits. But I do say that in the long run they will beat out mere brainpower unbacked by them. The point, however, which I would like to emphasize, is that, as Pepys says, it is much easier to make money than to keep it. Directly a man has \$1,000 he begins to turn up his nose at three per cent., the Bank rate, and he becomes the natural prey of the dishonest Promoter, *et hoc genus omnes*, who go up and down the land seeking whom they may devour. It is only necessary for one man to make a killing, as the saying is, which is carefully provided for in the estimates, for a whole community to lose their heads, draw their money out of the Savings Banks and throw it into the clever scoundrel's lap. Just as one man making a fortune on the red and black at Monte Carlo is the greatest advertisement the gaming tables can have, and the one lucky winner in the lottery brings in thousands of subscribers to the next drawing. It requires strength of mind and character to resist these blandishments, for some

are so cunningly framed they would deceive even the Elect; in fact I have known some of the Elect to be—elected. As one observes the probated wills of well-known financial men from time to time, one is surprised to observe the collection of doubtful investments which they seem to have acquired. The tendency to speculate is inherent. The best and most satisfactory investment after all is the devotion of one's capital and undivided interest to one's own particular business, and any surplus which is not required for its development should be placed in the safest securities available, which yield only moderate rates, but which do not require the attention of the Investor, leaving him free to devote his undivided interest to his own business.

Most dabbling in stocks and shares for a rise leaves private men with a loss rather than a gain. Indeed there are thousands of investors who will tell you that at the end of their lives, though they have done well in some shares they have done badly in others, and that the net result has been three per cent. And if people would only let it alone, it's surprising how three per cent will grow. Ten dollars a month saved with interest credited half yearly will amount at the end of ten years to a capital sum of fourteen hundred dollars. As Sir John Lubbock says, Capital is simply the result of two things—Labour and Abstinence. Thrift is a habit which can be cultivated or neglected. It is a conspicuous mark of civilised man. Savages have little trace of it, so that it is always either a feast or a famine with them. As old Samuel Smiles says, " There is

a dignity in the very effort to save with a worthy purpose. It produces a well regulated mind; it gives prudence a triumph over extravagance, it gives virtue the mastery over vice; it puts the passions under control; it drives away care, it secures comfort. Possessed with a little store of capital, a man walks with a lighter step, his heart beats more cheerily. When interruption of work or adversity happens, he can recline on his Capital. By prudent economy he can realize the dignity of man; Life will be a blessing and old age an Honour." Robert Burns, being a poet and a genius, has in eight lines given us the quintessence of the Gospel of Thrift, thus:

“ To catch Dame Fortune’s golden smile
Assiduous wait upon her;
And gather gear by every wile
That’s justified by Honour;
Not for to hide it in a hedge
Or for a train attendant;
But for the glorious privilege
Of being independent.”

Turning for a moment to the Institution to which I am proud to belong, the Bank of Montreal will have been in existence 98 years on November 3rd of this year, having opened for business in premises on St. Paul Street on that day in the year 1817, with a paid-up capital of \$350,000, the population of the City being then under 20,000. So that relatively it was a large undertaking from the start. Fifty years from its inception, The Bank’s capital was \$6,000,000, its reserve fund \$1,250,000, and total assets \$20,000,000, and to-day the capital and rest is \$33,000,000,

and total assets \$260,000,000. The Bank of Montreal started its career when George the Third was still reigning, and only two years after the Battle of Waterloo was fought. The Bank was twenty years old when Queen Victoria ascended the Throne, and has passed through the rebellion of '37; the Crimean War; the American War of Secession; the Fenian Raids; the North-West Rebellion of 1870 and the later one of 1885; the Boer War of 1899, and now she faces the present crisis, calm and undaunted, strong in the strength of ninety-eight years accumulated wisdom and experience, an experience which teaches her that this crisis is only an incident in her career and will be referred to 50 years hence as a mile-stone on her path of Progress. The Arabs have a tradition that of all the creations of Man, the Pyramids alone were able to sustain the weight of the Deluge, and when the waters subsided, they emerged safe and unharmed amidst the ruins of a World that had passed away. The war will sweep many things away—old prejudices; old customs; old misunderstandings; but an Institution like the Bank of Montreal, whose foundation has been laid broad and deep and whose present prosperity is the result of the confidence of generations of citizens in the ability and integrity of its Management, will survive like the Pyramids in Art and the coral reef in Nature and for the same reason. Its foundation goes down to the basic principles upon which civilized society rests, and in a time like this you will find it standing up for the welfare of the State like a granite cliff confronting a tempestuous tide.

